

CHAPTER 5: UNUSED CAPACITY OF SELECTED LOCAL GOVERNMENT TAX SOURCES

Counties rely primarily on two tax sources for revenues, the property tax and the local sales and use tax. These two tax sources provide counties with almost all of their tax revenue. Counties have authority to use other taxes as well, like the hotel/motel tax, the real estate excise tax, the timber harvest tax, gambling taxes, an admissions tax and the leasehold excise tax, among others. These taxes have produce less than five percent of county tax revenues in recent years.

TABLE 5.1			
SUMMARY OF UNUSED CAPACITY OF MAJOR LOCAL GOVERNMENT TAXES			
FY 2004 - \$ Millions			
	Current	Unused Capacity	Total
Counties:			
Sales & Use			
Basic & Optional	\$276.0	\$5.4	\$281.4
Criminal Justice	\$41.3	\$0.5	\$41.8
Correctional Facilities	\$30.6	\$65.3	\$95.9
Emergency Communications	\$9.0	\$88.7	\$97.7
Public Health & Safety	\$1.0	\$89.2	\$90.2
Hotel/Motel	\$5.5	\$0.0	\$5.5
Transit	\$583.7	\$211.5	\$795.2
Property			
County General Expense	\$712.7	\$24.8	\$737.4
County Road	\$349.6	\$15.0	\$364.6
Cities:			
Public Utility ¹	\$480.1	\$62.4	\$542.5
Municipal B&O ¹	\$205.2	\$322.2	\$527.4
Sales & Use			
Basic & Optional	\$699.2	\$4.8	\$704.0
Criminal Justice	\$55.1	\$0.2	\$55.3
Hotel/Motel	\$14.0	\$1.0	\$15.0
Property	\$779.3	\$25.3	\$804.7
Local Real Estate Excise Tax	\$170.5	\$13.4	\$183.9

¹Calendar Year 2003 collections

Local Basic and Optional Sales and Use Tax – All cities and counties may levy a basic 0.5 percent sales and use tax at a rate of 0.5 percent, plus an optional tax at rates ranging from 0.1 to 0.5 percent.

- All counties and municipalities levy the basic 0.5 percent local sales and use tax
- Almost all counties and municipalities levy the optional local sales and use tax at the maximum amount of 0.5 percent.
- Clark County and three municipalities within Clark County, Camas, Vancouver and White Salmon, levy the optional local sales and use tax at the rate of 0.3 percent.
- Several other border counties, Asotin, Klickitat and Skamania, do not levy the optional local sales and use tax. Five municipalities within those counties, including Asotin, Clarkston, Bingen, White Salmon and Stevenson, also do not levy the optional tax.
- Remaining capacity from the local basic and optional sales and use taxes in FY 2004: \$9.2 million.
- Of the remaining capacity, \$8 million is in Clark County and the Clark County municipalities that levy the optional tax at the 0.3 percent rate.

Local Sales and Use Tax for Criminal Justice – An additional local sales and use tax of 0.1 percent may be levied by counties for criminal justice programs. Receipts from the tax are shared with cities.

- Thirty counties levied this tax in 2004.
- Asotin, Columbia, Cowlitz, Garfield, Klickitat, Pacific, Pend Oreille, Skamania and Wahkiakum Counties do not levy this tax.
- Remaining unused capacity for this tax for FY 2004 is \$0.7 million.

Local Sales and Use Tax for Correctional Facilities – An additional local sales and use tax of 0.1 percent may be levied by counties with voter approval for construction and operation of juvenile detention facilities and jails. The tax may be levied only by counties with population less than one million, thus excluding King County.

- Currently, twelve counties are levying this tax.
- King County may not levy this tax.
- Remaining unused capacity for this tax for FY 2004 is \$65.3 million.

Local Sales and Use Tax for Transit – Cities, counties or public transportation benefit areas may levy an additional local sales and use tax ranging from 0.1 percent to 0.9 percent for the support of public transit. Voter approval is required.

- Currently, twenty-three cities, counties and PTBAs are levying this tax.
- Capacity was raised from 0.6 percent to 0.9 percent in the 2000 Legislative Session to offset revenue losses due to the elimination of the state Motor Vehicle Excise Tax.
- Remaining unused capacity for this tax for FY 2004 is \$211.5 million.

Municipal Business Tax on Gross Receipts – Municipalities may impose a maximum rate of 0.2 percent for city taxes on business activities measured by gross receipts or gross income. Cities that levied a higher rate before January 1, 1981, were allowed to keep the higher rates.

- Only 37 cities out of 300 levy a municipal gross receipts tax on business activity.
- No city east of the Cascades imposes a municipal business tax on gross receipts.

- If cities that levy no municipal business tax on gross receipts were to do so at the 0.2 percent rate, they would raise estimated additional revenues of \$322.2 million in CY 2003.

Municipal Public Utility Tax – Cities may levy a utility tax on the gross operating revenues earned by private utilities from operations within the boundaries of a city and by a city's own municipal utilities. Utilities that may be taxed include electric, water, sewer, storm water, gas, telephone, cable TV, and steam. The maximum rate for electric, gas, steam and telephone utility service is set at six percent, but a city may ask the voters to approve a higher rate.

- According to a survey by the Association of Washington Cities, almost every municipality imposes some kind of utility tax.
- At least four cities have received voter approval for a municipal PUT greater than six percent. These voter-approved increases were linked to specific programs such as fire department operations or law enforcement purposes
- If all cities levied the municipal PUT at six percent, they would raise estimated additional revenues of \$62.4 million in CY 2003.

Local Real Estate Excise Taxes – Cities and counties may levy a local real estate excise tax of up to 0.25 percent for the financing of capital projects. Almost all cities and counties have already implemented the 0.25 percent tax. Cities and counties that do not impose the second, optional 0.5 percent local sales and use tax are allowed to impose a local real estate excise tax of up to 0.5 percent for general purposes. However, the cities of Clarkston and Asotin are the only jurisdictions that currently levy this tax. Cities and counties also have the option of imposing a local real estate excise tax of up to 0.25 percent for exclusive use in financing capital projects specified in a comprehensive plan. To date, this tax has been implemented by almost all eligible jurisdictions.

- Cities had unused capacity of about \$13.4 million for these optional local real estate excise taxes in 2004. That represented about 7 percent of total capacity for cities.
- Counties had unused capacity of about \$10.5 million for these optional local real estate excise taxes in 2004. That represented about 10 percent of total capacity for counties.
- Total local real estate excise collections for cities and counties were estimated to be around \$270 million for CY 2004.

In 1990, the legislature authorized counties to impose a local real estate excise tax of up to 1.0 percent for exclusive use in acquiring and maintaining conservation areas. However, to date this tax has only been implemented by San Juan County. In 2002, the legislature gave counties the ability to impose an additional 0.5 percent local real estate excise tax for financing acquisition, construction and operation of affordable housing facilities for persons with low-to-moderate income or those with special needs. However, the county must have imposed the 1.0 percent real estate excise tax for conservation areas by January 1, 2003. San Juan County is the only county eligible to use this tax, but has not chosen to exercise that authority yet.

Local Motor Vehicle Fuel Tax – An additional gas tax may be levied by counties for local transportation purposes. The maximum rate is 10 percent of the state tax. Voters must approve the tax.

- No counties have levied this tax since its creation in 1990. Authority was broadened in 2003.
- Spokane County put the tax before its voters, but the measure failed.
- If all counties imposed the tax, an additional \$90.7 million in revenue could have been raised for transportation purposes in CY 2004.

Table 5.2

Potential County Fuel Tax Receipts			
County	CY 2004	County	CY 2004
Adams	309,417	Lewis	1,080,459
Asotin	308,999	Lincoln	175,564
Benton	2,406,151	Mason	904,846
Chelan	1,040,790	Okanogan	618,400
Clallam	1,158,927	Pacific	333,675
Clark	5,355,339	Pend Oreille	202,830
Columbia	79,787	Pierce	9,853,366
Cowlitz	1,525,145	San Juan	278,532
Douglas	583,300	Skagit	2,033,435
Ferry	89,149	Skamania	134,915
Franklin	872,320	Snohomish	9,429,222
Garfield	39,572	Spokane	6,498,099
Grant	1,102,626	Stevens	590,780
Grays Harbor	1,044,474	Thurston	3,778,574
Island	1,123,232	Wahkiakum	61,948
Jefferson	479,657	Walla Walla	714,113
King	25,444,921	Whatcom	2,724,738
Kitsap	3,553,062	Whitman	490,949
Kittitas	576,817	Yakima	3,414,994
Klickitat	335,042		
Sum of All Counties			90,748,169

Projection based on Washington State Department of Transportation report of state fuel tax collections and Department of Licensing vehicle registration statistics by county.

Maximum statutory rate for local option gas tax is 10% of the state rate. The state rate in CY2004 was 28 cents per gallon, which would set the local rate at 2.8 cents. No county is presently exercising their taxing authority.